

## **MEDIA RELEASE**

**9 August 2010**

The Pacific First Mortgage Fund (PFMF) is now in a position to commence paying redemptions to its 12,000 Unitholders.

The Investment Manager, BalmainTRIOLOGY (BT), aims to return \$295 million to Unitholders by October 2012, with the first installment of \$35 million to be paid in the December quarter of this year.

This achievement comes just on one year since BalmainTRIOLOGY was appointed as the new manager of PFMF. In that time BT has stabilised the Fund and recovered over \$131m from the sale of assets that have been 'significantly enhanced in value' by BT. The proceeds have been used to reduce bank debt down from \$92 million to \$30 million and increase the cash in hand from \$9 million to \$42 million.

BT is of the opinion that PFMF was so decimated by the previous manager, including a raft of transactions where the previous manager lent money either to itself or other entities that it controlled, it will never be re-opened to new investment and must be intensively managed to optimally return money to the Unitholders.

The process of returning money to Unitholders concerns two primary matters: How quickly and how much. BT believes, given the nature of the PFMF assets, that the faster the return of money to Unitholders, then the lower the amount that will be returned. BT is also aware that Unitholders have differing views as to whether they would like to receive less money faster, or the potential for more money later.

For this reason BalmainTRIOLOGY has called a meeting of Unitholders to give them the opportunity to vote on two resolutions covering the PFMF strategy:

**Resolution 1** will allow changes to the Fund's constitution to enable BT's recommended strategy for PFMF to be adopted which includes:

- The introduction of a new redemption program to return \$295m of capital to Unitholders by October 2012 with payments commencing in October 2010 in the amount of \$35m
- The introduction of a new unit entitlement to all current Unitholders to ensure that they share in proceeds from successful litigation whether or not their ordinary units have been previously redeemed by PFMF
- The PFMF assets to be sold after BT's value enhancement is completed (i.e. no fire sales) with additional development of a limited number of PFMF assets to increase the total capital payments to be made to Unitholders
- A new BT management fee structure which recognises the changing nature of PFMF from 'performing mortgage manager' to 'distressed asset manager and developer' and better aligns the interests of BT with the Unitholders<sup>1</sup>
- Introduction of a hardship redemption policy

**Resolution 2** will allow Unitholders to decide whether Unitholders prefer redemptions to be made at the Current Value Unit Price or the original Issue Price.

Both the Fund's independent Investor Committee and the report by the Independent Expert, PKF Corporate Advisory, support the passing of Resolution 1 and the use of current unit value in Resolution 2.

The meeting will be held in Brisbane on September 1. Unitholders can either vote by proxy or at the meeting.

Andrew Griffin, the Joint Chief Executive of the Fund, said: "This has been a difficult year for all Unitholders who are understandably disappointed that it has taken nearly a year for BT to produce a definitive strategy for the PFMF. We make no excuses for this. PFMF was mercilessly used by the previous manager to forward their own development ambitions at the cost of our Unitholders' money. To unravel the myriad schemes that were entered into by PFMF but were not for the benefit of Unitholders has been an arduous process. We could not attempt to provide any certainty to Unitholders until this process was fully completed. I am glad to say that this has now happened."

"We now ask Unitholders to again have their say. We are proposing a strategy for the Fund which we believe, without any doubt, provides the optimal solution to Unitholders and properly balances Unitholder's needs for optimal return of capital to them both from a timing and quantum perspective."

"If Unitholders accept our recommendations to vote in favour of Resolution 1 and choose Current Unit Value redemptions in respect of Resolution 2, then Unitholders will give themselves greater flexibility to either exit or stay in the Fund at their discretion. But by voting for the issue price value option, Unitholders will have no choice and will be forced to all exit at the same rate," Griffin said.

Balmains TRILOGY assumed management of the Fund after Unitholders of the City Pacific First Mortgage Fund – it has since be renamed the Pacific First Mortgage Fund – voted them in and they became registered as the new Responsible Entity in July 2009 in place of City Pacific. City Pacific has since gone into liquidation.

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<sup>1</sup> This entails a reduction of the base management fee by 33% to 1% of gross assets (currently 1.5%) and the addition of a 'performance fee'. The performance fee equates to 20% of any capital returns to Unitholders that exceeds \$415,000,000 (the value of the net assets as at December 2010) plus indexation in accordance with the RBA cash rate from 1 July 2010.

Since taking control, BalmainTRILOGY has got the fund off “life support” and to the point where a new, value-adding strategy can be implemented.

Rodger Bacon, Joint Chief Executive, said: “To get this far has been a very difficult and time-consuming task. What it has involved included:

- Appointing independent service providers to the key roles of custodian and registrar to ensure fair treatment of Unitholders;
- Establishing an independent Investor Committee to give Unitholders a voice;
- Vigorously pursuing all borrowers, including parties related to the former manager, City Pacific, for monies owed to the Fund
- Steadily selling Fund assets at fair market value
- Extending the Funds finance facility
- Identifying Fund assets that can be developed to enhance the value of the Fund
- Pursuing litigation to recover losses.”

“As responsible entity Trilogy has worked tirelessly to ensure that Unitholders are treated with the respect that they were denied by the previous manager. Whilst we wished we could have reached this stage sooner it was simply not possible, notwithstanding the commitment of the large team of people dedicated to managing the PFMF. We are thrilled that the first payments to Unitholders will soon be made and that we can restore some financial health to our Unitholders”.

Unitholders will also be asked to vote on a third resolution, proposed by minority group of 100 unitholders and opposed by BalmainTRILOGY. Resolution 3 seeks to reduce the 1.5% a year management fee on the gross assets to 1.25% a year on the net asset value of the Fund. However, if Resolution 1 is passed, BalmainTRILOGY will adopt the lower base fee of 1% of gross assets as set out in Resolution 1.

Both Trilogy and Balmain have very long experience in property and mortgage funds management. Trilogy’s mortgage fund was one of the very few to remain open during the Global Financial Crisis, and both companies now have individual mortgage funds open to investors.

**ENDS**